

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Cheboygan County Road Commission		County Cheboygan County	
Fiscal Year End December 31, 2006		Opinion Date April 6, 2007		Date Audit Report Submitted to State June 19, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

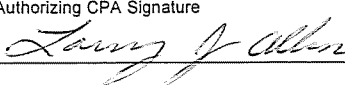
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

**CHEBOYGAN COUNTY ROAD COMMISSION**

**A Component Unit of Cheboygan County, Michigan**

**ANNUAL FINANCIAL STATEMENTS**

**with Supplementary Information**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

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**DECEMBER 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Cheboygan County  
Indian River, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Cheboygan County, Michigan, a component unit of Cheboygan County, Michigan as of December 31, 2006 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Cheboygan County, Michigan, as of December 31, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 6, 2007, on our consideration of the Road Commission of Cheboygan County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Cheboygan County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Benoit Whipple".

Certified Public Accountants

April 6, 2007

# MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Cheboygan County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Cheboygan County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Cheboygan County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

### Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet/statement of net assets and the governmental fund statements of revenues, expenditures, and changes in fund balance/ statement of activities provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Cheboygan County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 10 to 21 of this report.

### FINANCIAL HIGHLIGHTS

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$21,666,350 at December 31, 2006.

The net assets are separated into three major components, investment in capital assets of \$20,237,049 or 93.40% of net assets, restricted net assets of \$823,570 or 3.80% and finally unrestricted net assets of \$605,731 or 2.80%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt, and unrestricted net assets). The Road Commission's combined net assets increased \$730,367 from a year ago.

The following table presents a comparison of the net assets at December 31, 2006 and 2005 in a condensed format:

Condensed Statement of Net Assets	2006	2005
Assets -		
Current and other unrestricted assets	\$ 2,635,805	\$ 2,837,056
Capital Assets	<u>23,352,976</u>	<u>22,146,811</u>
Total Assets	<u>25,988,781</u>	<u>24,938,867</u>
Liabilities -		
Long-term liabilities	3,456,225	3,335,365
Other liabilities	<u>866,206</u>	<u>712,519</u>
Total Liabilities	<u>4,322,431</u>	<u>4,047,884</u>
Net Assets -		
Invested in capital assets, net of related debt	20,237,049	19,141,811
Restricted	823,570	1,364,250
Unrestricted	<u>605,731</u>	<u>429,922</u>
Total Net Assets	<u>\$ 21,666,350</u>	<u>\$ 20,935,983</u>

The following table presents a comparison of revenues, expenses and changes in net assets for the year ended December 31, 2006 and 2005 in a condensed format:

<b>Condensed Statement of Activities</b>	<u>2006</u>	<u>2005</u>
Revenues		
Federal Sources	\$ 279,105	\$ 628,557
State Sources	3,971,752	4,344,825
Local Sources	1,668,967	421,416
Charges for Services and Other	<u>2,072,029</u>	<u>1,996,835</u>
	<u>7,991,853</u>	<u>7,391,633</u>
Expenses		
Maintenance	4,769,122	4,890,205
Administration	270,394	213,194
Equipment (net)	219,336	( 135,167)
Other	120,804	124,422
Depreciation	<u>1,881,830</u>	<u>1,278,616</u>
	<u>7,261,486</u>	<u>6,371,270</u>
Change in Net Assets	<u>\$ 730,367</u>	<u>\$ 1,020,363</u>

### **Financial Analysis of Governmental Fund Financial Statements**

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$1,557,360, a decrease of \$388,529 from the prior year. Approximately 47.12% or \$733,790 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance in the amount of \$823,570 is reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

### **BUDGETARY HIGHLIGHTS**

The Road Commission amended its 2006 budget to reflect status changes in preservation/structural improvements and maintenance projects. The final budget was \$732,573 less in revenue and \$681,207 less in expenditures than the original budget primarily for these reasons. The actual adjusted 2006 revenues were \$1,674,620 more than the final budget. The actual expenditures were \$2,213,783 more than the final budget. The actual resulting change in fund balance was a reduction of \$539,163 greater than the final budget. When both the original and final budgets were approved, the \$500,730 that represents the value of roads contributed to the local road system was not known.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** - The Road Commission had \$23,352,976 in capital assets at the end of the year, representing an increase of \$1,206,165 or 5.45% from the previous year. The reason for the increase from the previous year was the capitalization of preservation/structural improvements funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2006 in comparison to the previous year is as follows:

	<u>2006</u>	<u>2005</u>
Land, Improvements and Right-of-Ways	\$ 8,131,856	\$ 7,605,220
Buildings and Improvements	2,403,174	2,554,024
Equipment	1,648,069	1,473,361
Depletable Assets	11,753	11,753
Infrastructure	<u>11,158,124</u>	<u>10,502,453</u>
Total Capital Assets	<u>\$ 23,352,976</u>	<u>\$ 22,146,811</u>

Additional information on the Road Commission's capital assets activity may be found in Note 7 to the financial statements.

**Long-Term Liabilities** - At the end of the current year, the Road Commission had total bond and installment loan debt requirements of \$3,115,927. The debt is backed by the full faith and credit of Cheboygan County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and work incidental thereto. A summary of the Long-Term Debt is as follows:

	<u>2006</u>	<u>2005</u>
Michigan Transportation Bonds – Series 2004	\$ 2,920,000	\$ 3,005,000
Installment Loan – 2006	<u>195,927</u>	<u>-</u>
	<u>\$ 3,115,927</u>	<u>\$ 3,005,000</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

2007 projections are optimistic that state motor vehicle revenues will remain relatively constant, but actually may be less than projected. Revenues for federal/state projects are projected to increase by \$4,320,000 due to the Jobs Today Program launched by the Governor trying to move up the implementation of future construction projects.

## CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Cheboygan County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Hwy, Indian River, Michigan, 49749.

## **BASIC FINANCIAL STATEMENTS**

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 200,722	\$ -	\$ 200,722
Investments	377,494	-	377,494
Due from other governmental units -			
Federal	9,100	-	9,100
State	1,066,892	-	1,066,892
Local	373	-	373
Prepaid expenditures/expenses	-	150,720	150,720
Inventory	830,504	-	830,504
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	8,168,166	8,168,166
Assets being depreciated	-	15,184,810	15,184,810
Total Assets	<u>\$ 2,485,085</u>	<u>\$ 23,503,696</u>	<u>\$ 25,988,781</u>

**LIABILITIES AND FUND EQUITY**

**Liabilities:**

Accounts payable	\$ 376,284	\$( 112,797)	\$ 263,487
Accrued liabilities	74,494	-	74,494
Accrued interest payable	-	51,278	51,278
Due to other governmental units	17,050	-	17,050
Advances and deposits	459,897	-	459,897
Bonds and notes payable, due within one year	-	122,345	122,345
Bonds and notes payable, due in more than one year	-	2,993,582	2,993,582
Long-term accrued vacation and sick	-	340,298	340,298
Total Liabilities	<u>927,725</u>	<u>3,394,706</u>	<u>4,322,431</u>

**Fund Balance:**

Fund Balance -			
Reserved -			
Primary/Local Roads	823,570	( 823,570)	-
Unreserved -			
Undesignated	733,790	( 733,790)	-
Total Fund Balance	<u>1,557,360</u>	<u>( 1,557,360)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,485,085</u>		

**Net Assets:**

Invested in capital assets net of related debts		20,237,049	20,237,049
Restricted -			
Primary/Local Roads		823,570	823,570
Unrestricted		605,731	605,731
Total Net Assets		<u>\$ 21,666,350</u>	<u>\$ 21,666,350</u>

See Notes to Financial Statements

**CHEBOYGAN ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 38,960		\$ 38,960
Intergovernmental -			
Federal sources	279,105		279,105
State sources	3,971,752		3,971,752
Local sources	1,668,967	-	1,668,967
Charges for services	2,001,863		2,001,863
Interest and rents	27,811		27,811
Other	9,460	( 6,065)	3,395
Total Revenues	<u>7,997,918</u>	<u>( 6,065)</u>	<u>7,991,853</u>
<b>Other Financing Sources:</b>			
Installment loan proceeds	<u>202,000</u>	<u>( 202,000)</u>	<u>-</u>
Total Revenues and Other Financing Sources	<u>8,199,918</u>	<u>( 208,065)</u>	<u>7,991,853</u>
<b>Expenditures/Expenses:</b>			
Current -			
Local construction/ capacity improvements	500,730	( 500,730)	-
Primary preservation/ structural improvements	94,127	( 94,127)	-
Local preservation/ structural improvements	1,734,031	( 1,734,031)	-
Primary maintenance	1,202,792	( 11,358)	1,191,434
Local maintenance	1,940,202	( 7,632)	1,932,570
State maintenance	1,645,118		1,645,118
Administrative	282,611	( 12,217)	270,394
Equipment	2,874,834	( 729,097)	2,145,737
Less equipment rental			
charged to other activities	( 1,926,401)	-	( 1,926,401)
Depreciation	-	1,881,830	1,881,830
Capital Outlay	765,220	( 765,220)	-
Less: depreciation credit			
and retirements	( 741,361)	741,361	-
Debt Service -			
Principle retirement	91,073	( 91,073)	-
Interest	125,471	( 4,667)	120,804
Total Expenditures/Expenses	<u>8,588,447</u>	<u>( 1,326,961)</u>	<u>7,261,486</u>
Excess of revenues and other sources over (under) expenditures/expenses	( 388,529)	1,118,896	730,367
Fund Balance/Net Assets at January 1, 2006	<u>1,945,889</u>	<u>18,990,094</u>	<u>20,935,983</u>
Fund Balance/Net Assets at December 31, 2006	<u>\$ 1,557,360</u>	<u>\$ 20,108,990</u>	<u>\$ 21,666,350</u>

See Notes to Financial Statements

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 50,000	\$ 35,500	\$ 38,960	\$ 3,460
Intergovernmental -				
Federal sources	480,000	280,000	279,105	( 895)
State sources	4,420,673	3,972,254	3,971,752	( 502)
Local sources	711,552	354,194	1,668,967	1,314,773
Charges for services	1,356,646	1,615,991	2,001,863	385,872
Interest and rents	5,000	27,739	27,811	72
Other	32,000	37,620	9,460	( 28,160)
Total Revenues	<u>7,055,871</u>	<u>6,323,298</u>	<u>7,997,918</u>	<u>1,674,620</u>
<b>Expenditures:</b>				
Current -				
Local Construction/ capacity improvements	-	-	500,730	( 500,730)
Primary preservation/ structural improvements	544,173	87,724	94,127	( 6,403)
Local preservation/ structural improvements	1,438,972	937,153	1,734,031	( 796,878)
Primary maintenance	1,313,700	1,177,300	1,202,792	( 25,492)
Local maintenance	1,904,312	1,830,450	1,940,202	( 109,752)
State maintenance	1,348,646	1,606,991	1,645,118	( 38,127)
Administrative	330,000	330,000	282,611	47,389
Equipment - net	-	-	948,433	( 948,433)
Capital Outlay - net	( 33,000)	188,502	23,859	164,643
Debt Service	209,068	216,544	216,544	-
Total Expenditures	<u>7,055,871</u>	<u>6,374,664</u>	<u>8,588,447</u>	<u>( 2,213,783)</u>
Excess of revenues over (under) expenditures	-	( 51,366)	( 590,529)	( 539,163)
<b>Other Financing Sources:</b>				
Loan Proceeds	<u>-</u>	<u>202,000</u>	<u>202,000</u>	
Excess of revenues and other sources over (under) expenditures	-	150,634	( 388,529)	( 539,163)
Fund Balance at January 1, 2006	<u>1,945,889</u>	<u>1,945,889</u>	<u>1,945,889</u>	<u>-</u>
Fund Balance at December 31, 2006	<u>\$ 1,945,889</u>	<u>\$ 2,096,523</u>	<u>\$ 1,557,360</u>	<u>\$ ( 539,163)</u>

See Notes to Financial Statements

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Cheboygan County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

**A. Description of Road Commission Operations –**

The Cheboygan County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Cheboygan, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) Townships in Cheboygan County and maintains 1,127 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash And Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost, which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories** – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructures are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Advances From The State Of Michigan** - The State of Michigan advances funds on a State maintenance agreement it has with the Cheboygan County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**Accrued Vacation And Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

**Deferred Revenues** - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Equipment Rental** - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 1,557,360
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	37,676,063
Deduct – accumulated depreciation	( 14,323,087)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 3,456,225)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	( 51,278)

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**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):**

Accounts payable reported in government fund financial statements to record insurance expense not expensed in government-wide statement of net expenses	\$ 112,797
Prepaid expenses not reported in the governmental fund statements	<u>150,720</u>
Net Assets	<u>\$ 21,666,350</u>

**B. Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).**

Excess of revenues over expenditures - governmental fund statement	\$( 388,529)
Insurance expense adjustment not reported in governmental fund statements	112,797
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	3,094,108
Deduct – retirements	( 47)
Deduct – depreciation	( 1,881,830)
Deduct – loss on disposal of infrastructure	( 6,065)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	948
Prepaid expense adjustment not reported in the governmental fund statements	( 80,155)
Principal retirement	91,073
Installment loan proceeds reported as another financing source in the governmental fund statements, but not in the government-wide statements where it is reported as a long-term liability	( 202,000)

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):**

Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	( 9,933)
Change in Net Assets	\$ <u>730,367</u>

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2006, the Road Commission had expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2006, the carrying amount of deposits is as follows:

Cash on Hand -	
Petty Cash	\$ 300
Deposits with Financial Institutions -	
Imprest Checking	22,958
Maintained with County Treasurer -	
Savings	177,464
Certificates of Deposit	<u>377,494</u>
	<u>\$ 578,216</u>

The Uniform Accounting Procedure Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Cheboygan County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

As a component unit of Cheboygan County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Cheboygan County at banking institutions insured by federal depository insurance. However, the Road Commission by state statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

***Custodial Credit Risk – Deposits-*** is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts, savings accounts, and certificates of deposit. At December 31, 2006, the carrying amount of the Road Commission's deposits is \$577,916, and the bank balance is \$600,601, of which \$245,643 is FDIC insured, and the remaining \$354,958 is exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 5 - INVENTORIES:**

The Inventory balance of \$830,504 at December 31, 2006 consisted of \$579,192 of road materials and \$251,312 of equipment parts and materials.

**NOTE 6 - FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2006, the Road Commission of Cheboygan County had less than \$500,000 of force account expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$279,105 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

**NOTE 7 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Removals	Balance December 31, 2006
Capital Assets, not being depreciated –					
Land	\$ 258,755	\$ -	\$ -	\$ -	\$ 258,755
Land Improvements	7,259,157	526,136	-	-	7,785,293
Right of Ways	87,308	500	-	-	87,808
Construction in Progress	-	36,310	-	-	36,310
Total Capital Assets, not being depreciated	<u>7,605,220</u>	<u>562,946</u>	<u>-</u>	<u>-</u>	<u>8,168,166</u>
Capital Assets, being depreciated –					
Buildings and improvements	3,369,835	-	-	-	3,369,835
Road Equipment	6,791,226	762,990	137,996	-	7,416,220
Shop Equipment	241,033	980	-	-	242,013
Office Equipment	-	88,717	750	79	-
Engineering equipment	64,724	-	2,379	-	62,345
Yard and storage	194,224	-	-	500	194,724
Infrastructure -					
Roads	11,487,730	1,352,922	-	( 219,102)	12,621,550
Bridges	5,098,788	413,520	-	( 27,571)	5,484,737
Depletable assets –					
Gravel pits	<u>27,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,085</u>
	<u>\$ 27,363,362</u>	<u>\$ 2,531,162</u>	<u>\$ 140,454</u>	<u>\$ ( 246,173)</u>	<u>\$ 29,507,897</u>

89,388

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 7 - CAPITAL ASSETS - (cont'd):**

	Balance January 1, 2006	Additions	Deletions	Removals	Balance December 31, 2006
Less – accumulated depreciation for –					
Buildings	\$ 815,811	\$ 150,850	\$ -	\$ -	\$ 966,661
Road Equipment	5,608,975	542,370	137,996	-	6,013,349
Shop Equipment	98,297	17,307	-	-	115,604
Office Equipment	62,868	10,500	32	-	73,336
Engineering Equipment	57,652	1,717	2,379	-	56,990
Yard and Storage	78,772	18,570	-	-	97,342
Infrastructure –					
Roads	4,449,750	1,032,057	-	( 219,102)	5,262,705
Bridges	1,634,315	108,459	-	( 21,006)	1,721,768
Depletable Assets	<u>15,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,332</u>
	<u>\$ 12,821,772</u>	<u>\$ 1,881,830</u>	<u>\$ 140,407</u>	<u>\$( 240,108)</u>	<u>\$ 14,323,087</u>
Total Capital Assets, being depreciated, net	<u>14,541,590</u>	<u>649,332</u>	<u>47</u>	<u>( 6,065)</u>	<u>15,184,810</u>
Governmental activity capital assets net	<u>\$ 22,146,810</u>	<u>\$ 1,212,278</u>	<u>\$ 47</u>	<u>\$( 6,065)</u>	<u>\$ 23,352,976</u>

**NOTE 8 - LONG-TERM LIABILITIES:**

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2005	Due Within One Year
2004 MTF Bond	\$ 3,005,000	\$ -	\$ 85,000	\$ 2,920,000	\$ 85,000
2006 Installment Loan	-	202,000	6,073	195,927	37,345
Accrued vacation and sick	<u>330,365</u>	<u>9,933</u>	<u>-</u>	<u>340,298</u>	<u>-</u>
	<u>\$ 3,335,365</u>	<u>\$ 211,934</u>	<u>\$ 91,073</u>	<u>\$ 3,456,225</u>	<u>\$ 122,345</u>

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

**2004 MTF Bonds -**

Significant details regarding outstanding long-term liabilities are presented below:

The County of Cheboygan, Michigan issued \$3,060,000 of Michigan Transportation Fund Bonds, Series 2004, dated May 1, 2004, pursuant to the provision of Act 51, Public Acts of Michigan of 1951, as amended. The Bonds are issued in anticipation of and are payable from monies derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction, and work incidental thereto pursuant to Act 51.

Principal on the bonds is due on February 1, 2006 through 2029 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 3.00% to 4.75%.

The annual requirements to amortize the bond liability outstanding at December 31, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 85,000	\$ 121,518	\$ 206,518
2008	90,000	118,892	208,892
2009	90,000	116,192	206,192
2010	90,000	113,403	203,403
2011	95,000	110,300	205,300
2012-2016	515,000	495,154	1,010,154
2017-2021	625,000	379,461	1,004,461
2022-2026	775,000	225,010	1,000,010
2027-2029	<u>555,000</u>	<u>40,494</u>	<u>595,494</u>
	<u>\$ 2,920,000</u>	<u>\$ 1,720,424</u>	<u>\$ 4,640,424</u>

**Installment Loan -**

In October 2006, the Road Commission entered into an installment purchase contract for the purchase of two Caterpillar Yard Loaders. The loan is payable monthly with an annual interest rate of 4.2%.

The annual requirements to amortize the installment purchase liability outstanding at December 31, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 37,345	\$ 7,515	\$ 44,860
2008	38,945	5,916	44,861
2009	40,612	4,248	44,860
2010	42,351	2,510	44,861
2011	<u>36,674</u>	<u>710</u>	<u>37,384</u>
	<u>\$ 195,927</u>	<u>\$ 20,899</u>	<u>\$ 216,826</u>

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

**Accrued Sick and Vacation -**

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2006, is \$320,448 for sick, and \$19,850 for vacation. All amounts vested have been accrued on the government-wide statements.

**NOTE 9 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 18.11% for general employees, 40.84% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

**Annual Pension Costs -**

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$479,214 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):**

**Three-Year Trend Information**

Fiscal Year Ending <u>December 31,</u>	Annual Pension Costs (APC)	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2004	\$ 432,047	100%	-
2005	450,355	100	-
2006	479,214	100	-

**Schedule of Funding Progress**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2003	8,117,500	12,858,596	4,741,096	63	1,866,822	254
2004	8,527,856	13,782,867	5,255,011	62	1,937,668	271
2005	8,867,942	14,449,667	5,581,725	61	1,955,250	285

**NOTE 10 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the Cheboygan County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2006 these costs amounted to approximately \$408,975 with 34 eligible participants.

**NOTE 11 - ADVANCES:**

Advances of \$459,887 at December 31, 2006, are advanced by the State of Michigan for working capital of \$150,889 and equipment purchases of \$308,998 under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled.

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES - (cont'd):**

The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 13 - RISK MANAGEMENT:**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

## **SUPPLEMENTARY INFORMATION**

**CHEBOYGAN COUNTY ROAD COMMISSION****A Component Unit of Cheboygan County****DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES****GENERAL OPERATING FUND****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Permits -	<u>\$ 38,960</u>	<u>\$ 57,114</u>
Federal Sources -		
Bridge	262,232	22,041
D Funds	7,751	240,705
Surface Transportation Program (STP)	<u>9,122</u>	<u>365,811</u>
	<u>279,105</u>	<u>628,557</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	1,897,618	1,933,556
Local roads	1,722,096	1,732,890
Forest Road Money	119,636	119,637
Snow removal	139,312	145,537
Critical bridge	78,900	271,044
Rural primary money ( Category D funds )	<u>4,190</u>	<u>132,161</u>
	<u>3,971,752</u>	<u>4,344,825</u>
Local Sources -		
Township contributions	1,118,198	386,010
Other contributions	<u>550,769</u>	<u>35,406</u>
	<u>1,668,967</u>	<u>421,416</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	1,993,194	1,912,596
Salvage Sales	<u>8,669</u>	<u>3,151</u>
	<u>2,001,863</u>	<u>1,915,747</u>
Interest	<u>27,811</u>	<u>23,700</u>
Other -		
Gain (loss) on equipment disposal	9,453	166
Sundry refunds	<u>7</u>	<u>108</u>
	<u>9,460</u>	<u>274</u>
Total Revenues	7,997,918	7,391,633
<b>Other Financing Sources:</b>		
Loan Proceeds	<u>202,000</u>	<u>-</u>
Total Revenues and Other Sources	<u>\$ 8,199,918</u>	<u>\$ 7,391,633</u>

**CHEBOYGAN COUNTY ROAD COMMISSION****A Component Unit of Cheboygan County****DETAIL SCHEDULE OF EXPENDITURES  
GENERAL OPERATING FUND  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Expenditures:</b>		
Construction/capacity improvements -		
Local roads and structures	\$ 500,730	\$ -
Preservation/ structural improvements -		
Primary roads and structures	94,127	755,217
Local roads and structures	1,734,031	949,326
	<u>1,828,158</u>	<u>1,704,543</u>
Maintenance -		
Primary roads and structures,		
winter maintenance and traffic control	1,202,792	1,224,342
Local roads and structures,		
winter maintenance, and traffic control	1,940,202	1,789,322
	<u>3,142,994</u>	<u>3,013,664</u>
State Maintenance -		
Trunkline maintenance and nonmaintenance	<u>1,645,118</u>	<u>1,867,880</u>
Equipment -		
Direct	1,619,840	1,455,488
Indirect	824,626	761,968
Operating	430,368	310,008
Less - equipment rental	( 1,926,401)	( 1,931,236)
	<u>948,433</u>	<u>596,228</u>
Administrative -		
Administration	445,335	408,378
Less -		
State trunkline overhead	( 155,170)	( 178,025)
Purchase discounts and other	( 7,554)	( 7,876)
	<u>282,611</u>	<u>222,477</u>
Capital Outlay -		
Buildings	765,220	118,029
Equipment	-	446,349
Less -		
Depreciation	( 741,314)	( 744,387)
Equipment Retirements	( 47)	( 399)
	<u>23,859</u>	<u>( 180,408)</u>
Debt Service -		
Principal retirement	91,073	55,000
Interest	125,471	157,916
	<u>216,544</u>	<u>212,916</u>
Total Expenditures	<u>\$ 8,588,447</u>	<u>\$ 7,437,300</u>

# CHEBOYGAN COUNTY ROAD COMMISSION

## A Component Unit of Cheboygan County

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

#### BY FUND BALANCE SUB-ACCOUNTS

#### GENERAL OPERATING FUND

#### FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary	Local	County	Total
<b>Revenues:</b>				
Permits	\$ -	\$ -	\$ 38,960	\$ 38,960
Intergovernmental -				
Federal Sources	16,873	262,232	-	279,105
State Sources	1,980,077	1,991,675	-	3,971,752
Local Sources	16,483	1,631,621	20,863	1,668,967
Charges for services	-	-	2,001,863	2,001,863
Interest	-	-	27,811	27,811
Other	-	-	9,460	9,460
Total Revenues	<u>2,013,433</u>	<u>3,885,528</u>	<u>2,098,957</u>	<u>7,997,918</u>
<b>Expenditures:</b>				
Local construction/ capacity improvements	-	500,730	-	500,730
Preservation/ structural improvements	94,127	1,734,031	-	1,828,158
Maintenance	1,202,792	1,940,202	-	3,142,994
State maintenance	-	-	1,645,118	1,645,118
Equipment - net	205,051	480,097	263,285	948,433
Administrative - net	66,983	215,628	-	282,611
Capital outlay - net	-	-	23,859	23,859
Debt Service -				
Interest and issuance costs	-	-	216,544	216,544
Total Expenditures	<u>1,568,953</u>	<u>4,870,688</u>	<u>2,148,806</u>	<u>8,588,447</u>
Excess of revenues over (under) , expenditures	444,480	( 985,160)	( 49,849)	( 590,529)
<b>Other Financing Sources:</b>				
Loan Proceeds	<u>-</u>	<u>-</u>	<u>202,000</u>	<u>202,000</u>
Excess of revenues and other sources over (under) expenditures before optional transfers	444,480	( 985,160)	152,151	( 388,529)
Optional transfers	<u>( 590,000)</u>	<u>590,000</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures after optional transfers	( 145,520)	( 395,160)	152,151	( 388,529)
Fund Balance at January 1, 2006	<u>773,761</u>	<u>590,489</u>	<u>581,639</u>	<u>1,945,889</u>
Fund Balance at December 31, 2006	<u>\$ 628,241</u>	<u>\$ 195,329</u>	<u>\$ 733,790</u>	<u>\$ 1,557,360</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road Commissioners  
of Cheboygan County  
Indian River, Michigan

We have audited the financial statements of Cheboygan County Road Commission as of and for the year ended December 31, 2006, and have issued our report thereon, dated April 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Cheboygan County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cheboygan County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cheboygan County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cheboygan County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Cheboygan County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Cheboygan County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cheboygan County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cheboygan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Cheboygan County Road Commission in a separate letter dated April 6, 2007.

This report is intended for the information and use of the management and Board of County Road Commissioners of Cheboygan County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

April 6, 2007

## MANAGEMENT LETTER

To the Board of County Road Commissioners  
of Cheboygan County  
Indian River, Michigan

We have recently completed our audit of the basic financial statements of the Cheboygan County Road Commission as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the ***Report on Internal Accounting Controls*** these observations were not considered significant deficiencies in relation to the basic financial statements of the Road Commission.

### **Adoption of an Investment Policy**

The County Treasurer as the custodian of the Road Commission cash performs the investing under the County Investment policy.

The Michigan Department of Treasury believes that a Road Commission should have its own formal board approved investment policy that documents the Road Commission's policy on acceptable deposit and investment risks. The Road Commission should have the investment policy even with the County Treasurer being responsible for maintaining Road Commission cash.

We recommend that a formal investment policy be adopted by the County Board of Road Commissioners.

### **Controls over Transfer Vouchers**

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

These observations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006, financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management, the Road Commission Board, others with the Road Commission of Michigan, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these observations with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beaumont Whipple".

April 6, 2007